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SIPDIS

DEPARTMENT FOR EUR/SE

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SUBJECT: DUBAI OR NOT DUBAI: THAT IS ISTANBUL'S QUESTION

REF: ISTANBUL 1716

Classified By: Consul General Deborah K. Jones for reasons 1.4 (b) and (d).

This message was coordinated with Embassy Ankara.

¶1. (SBU) Summary: Istanbul Municipality and Dubai Holding inked an agreement October 7 heralding Dubai International Properties' (DIP) intent to invest USD 5 billion in Turkey in the coming years. Istanbul will chip in USD 1 billion in property for a 20 percent share of the joint venture. A USD 500 million mixed-use Dubai Towers project in Istanbul's tony Levent district, due for completion in 2008, will kick off the partnership's real estate developments. The agreement has provoked widespread criticism, from concern about the potential "Dubai-ization" of Istanbul to the lack of transparency surrounding the deal. Istanbul is also debating the impact the project would have on its traffic, skyline and rules governing use and development of municipal property. Despite hints that Dubai interlocutors are somewhat irked by largely critical public debate about the project, a related TV and newspaper ad campaign suggests DIP is moving full speed ahead. End summary.

¶2. (SBU) Unveiling the Project: In the wake of a September visit by Prime Minister Erdogan to the United Arab Emirates, the Prime Minister and Dubai's Crown Prince, General Sheikh Mohammed bin Rashid Al Maktoum, presided over the October 7 signing of an agreement between Istanbul Mayor Kadir Topbas and Dubai Holding Executive Chairman Mohammed Al Gergawi, creating a joint venture between Dubai International Properties (DIP) and the city. DIP will invest USD 5 billion in the coming years; the city will chip in USD 1 billion in choice property for development. (Note: DIP is a subsidiary of Dubai Holding. End note.) PM Erdogan was ebullient in underlining the importance of this first major foreign investment following the October 3 launch of Turkey's EU accession negotiations, implying a stream of such investments would follow. (Note: Wide coverage of the announcement featured the Crown Prince in flowing robes and PM Erdogan, side by side, before breaking their fast together at an iftar hosted by the Prime Minister. The two performed prayers together at the Sultan Ahmet Mosque. End note.)

¶3. (SBU) "Dubai-ization" of Istanbul: The initial announcement was long on photo opportunities and short on project details. October 8 press reports focused on three prime pieces of municipally-owned Istanbul real estate as potential sites for DIP's investment and, in the absence of specifics, speculation was rife. Coming on top of a controversial tender for operation of Galataport (reftel), the announcement raised alarms that the project would move forward without proper tenders and without regard to zoning and existing transportation infrastructure concerns.

¶4. (SBU) More Details, Please: Topbas and Al Gergawi met the press October 24 to spell out the details, explaining that Dubai Holding and the Istanbul Municipality will establish a Real Estate Investment Partnership (REIP) with a breakdown of 80 and 20 percent share. Forty-nine percent of the new company will be sold publicly through the Istanbul Stock Exchange, meeting Turkey's requirement that 48 percent of such REIP's must be publicly traded. The company's initial undertaking will be development of the Dubai Towers Istanbul complex in Istanbul's Levent district, a high-rent district north of the city center. One of the complex's two towers is designed to be Istanbul's tallest building at more than 300 meters. The complex is to include a five-star hotel, convention centers, theaters, offices and apartments. Construction is slated to begin in 2006 and conclude in 2008.

¶5. (SBU) Fear of Arab capital or fear of traffic?: Public reaction has been largely negative. Initially some observers expected criticism of the project to be more nationalist than economic in nature, and to focus on possible political implications of a large influx of Arab capital into Turkey. As several prominent columnists darkly commented to CG, "with Arab capital comes Arab culture." The Chairman of one real estate company in Istanbul accused the Prime Minister of using the October 3 EU decision to "camouflage" the announcement of this deal. As the debate unfolded, however, critics focused on more practical concerns. The Chamber of

City Planners told us October 27 the project completely disregards already serious transportation infrastructure problems. They assert that the new complex would bring approximately 40,000 additional commuters each day to this area in Levent, and that there has been no discussion of how to accommodate this additional circulation. Moreover, they claim there is no room for further road or by-pass construction.

16. (SBU) Public Space being Sacrificed: Istanbul's Chamber of Architects has been more vociferous in its criticism, arguing that the area is currently zoned for public service usage and should stay that way. (Note: The space currently serves as a parking lot for municipal buses. End note.) Already there is only one square meter of open space per person in the area, and no open area to which people can evacuate in the case of an earthquake or other natural disaster. On top of this, they argue this type of transaction does not require attracting new sources of financing: Chamber leaders stressed real estate development can be done easily without external financing because it is easy to sell units in such projects. Echoing a sentiment voiced by ANAP MP Emin Sirin, they noted that if such a project were proposed in more economically depressed areas of Istanbul, such as Kartal, where investment were truly needed, they'd be less likely to oppose it. One Chamber member stated that the project's placement in prestigious Levent is a symbolic "power play."

17. (SBU) Court cases in the offing?: In an October 31 meeting with poloff, Chamber leaders said that they are considering filing suit against the project, but have not yet done so. Because zoning requires the space to be used for public services, Chamber leaders explained, the City Council must amend the city plan to accommodate the new project proposal before the Municipality issues the requisite permission. In advance of such permission, a court case is premature. They speculated the City Council is "waiting for the right moment" to make the amendment, and if it doesn't arrive, they further speculated that the government would pass a new law allowing for the project to move forward, as it allegedly did in the cases of development projects at Haydarpasa Train Station and Galataport.

18. (SBU) We'll build you better for less: While many had initially accused the Municipality of impropriety in the deal in the absence of a tender process for developing this property, those cries have died down. The Chamber of Architects, for example, told us that "maybe" the Chamber of Accountants would go after the project on that basis, and others have underlined that while there may be a perception of impropriety, the Municipality can do as it wishes with land it holds. Allusions to the lack of competition in this deal surfaced again October 31, however, when the Ankara Chamber of Commerce offered in a letter to Mayor Topbas to build the Istanbul Municipality a better complex on better terms, offering 50 percent share in the venture.

19. (C) Just bad public perception or corruption?: Privately, some contacts suggest the real issue is not the need for a tender, but corruption. One real estate executive speculated that the Mayor himself is privately receiving a cut on this deal, adding that he'd heard similar "allocations" are being made to people close to the AK Party on other projects, such as the Haydarpasa Train Station. This contact was noticeably nervous in discussing his opinions on the deal in an October 11 meeting just after the announcement.

10. (SBU) Moving forward: Newspaper reports last month cited an unnamed Turkish Foreign Ministry official who hinted that Dubai interlocutors were having second thoughts as to whether the investment would be worth the public criticism and hassle. Chamber of Architects also told us the Crown Prince of Dubai reportedly said "any proposal would be unlikely to...please the Chamber." Meanwhile, though, several television stations broadcast ads heralding the new Dubai Towers project throughout the day and night, and newspapers have featured full-page ads promoting Dubai International Properties' arrival in Istanbul. Moreover, press is reporting that the Chairman of the Abu Dhabi Economic Department, Sheikh Hamid bin Zayed Al Nahyan, is visiting government officials in Ankara this week to investigate additional investment opportunities in Turkey. While here, he reportedly invited Turkish contractors to bid on USD 100 billion in UAE-based construction projects.

11. (C) Comment: Istanbul residents were struck by the figure a robed and regal Dubai Crown Prince cut in press photos as he oversaw the agreement's signing on the banks of the Bosphorus, before dining and praying with the Prime Minister. There is no doubt that the massive amount of capital the United Arab Emirates could potentially invest in Istanbul would stimulate Turkey's economy, and even attract other investment. But the clumsy handling of public promotion of the Dubai Towers deal, on top of the recent Galataport outcry and in light of the prize real estate being

offered for the project, may have limited public appetite for the "Dubai-ization" of Istanbul. The deal seems unlikely to fall apart as a result of court cases, but -- unless Dubai Holding begins to see this as more trouble than it's worth -- Dubai Towers will go forward with little public good will. Ironically, and unbeknownst to the vast majority of Istanbulites, the landmark, super luxurious Ciragan Palace Hotel where the October 7 signing took place (and where Presidents and other VIPs are routinely housed when visiting Istanbul) is already owned by the UAE's Abu Dhabi Investment Authority. End comment.

JONES